

ANNUAL BUDGET OF-



# GAMAGARA

## Local Municipality (NC 453)

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**MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**  
**2016/17 – 2018/19**

ANNUAL BUDGET OF

# **GAMAGARA**

2016/17 TO 2018/19  
MEDIUM TERM REVENUE AND  
EXPENDITURE FORECASTS

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- At [www.gamagara.co.za](http://www.gamagara.co.za)

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## Part 1 – Annual Budget

### 1.1 Mayor's Report

## BUDGET SPEECH

**2016/17**

Delivered by

**MAYOR OF GAMAGARA LOCAL MUNICIPALITY**

**Cllr. DP MOYO**



**25TH MAY 2016 – GAMAGARA COUNCIL CHAMBERS**

**10:00am**

**Honourable Councillors**

**Chairpersons of various portfolio committees**

**The Municipal Manager: Mr Thusoeng Clement Itumeleng**

**Directors of all our Departments in the Municipality**

**The entire staff component**

**Members of the Ward Committees**

**Leaders of Political Parties**

**Members of Public**

**Members of Media**

**Ladies and Gentlemen**

**Introduction:**

This year marks the end five year period for the current term of council since our elections in 2011 that was characterised by many circumstantial incidents. The current leadership of council served under a dynamic atmosphere or environment of dynamic and diversified economy that was growing at the fastest rate in the year 2011 – 2013 or so, and later in the year 2015 – 2016 the same economy downscaled drastically to a level where the biggest employer in the region which are the mines had considered laying off many workers in different forms. These facts confirms the dynamic character that has characterised our term of office as the current council. As council today we will have to reflect on various achievements and challenges during our term of office.

Therefore it is indeed an honour for me to be afforded yet again another opportunity to present the budget and IDP on behalf of the municipality and the

entire communities of Gamagara. Our primary objective and constitutional mandate as local government is to provide basic services to our people. Today we are so humbled by the work that was done by the municipality in addressing this constitutional mandate despite the challenges we were confronted with over the past five years. We have experienced quite exponential growth and development in the past few years as a result of the economic opportunities presented by the mines.

### **Back to Basics Concept**

Our performance on the back to basic concept as spearheaded by the National Department of COGTA has been moderately attended by our responsible team. On monthly basis we managed to compile and assess the reports of all service delivery related issues as required from the municipalities. However we had also challenges in some areas but remain optimistic that we will continue to make a significant role in improving our people's lives.

### **Land Issue**

The land has been one of the critical challenges faced by the municipality, in the process we managed to develop a land policy that assist the council to dispose land to the previously disadvantaged communities particularly on residential and business sites. The policy was adopted by this council and continue to serve as a guiding document to address this long and outstanding issues of land.

The land issue continue to influence some other negative processes in our communities especially in Olifantshoek, Deben and Mapoteng/Sesheng where the illegal land grab was experienced. The municipality managed to defend itself successfully in the highest court in the land against the forums that led the illegal land grabbing. This was a clear message communicated to all land grabbers that lawlessness cannot be tolerated by government as it impact negatively in the planning of the municipality.

## **Engagement with Stakeholders and Public Participation, Commitments of Municipal Officials**

As council we have been engaging with different stakeholders from all sectors in order for us to create an enabling environment to deliver on our mandates. The mines and Gamagara Development Forum (GDF) were also instrumental in developing infrastructures projects that benefited the community through Social and Labour Plan (SPL) and other commitments on project by GDF.

We have also embarked on a vigorous public participation to consult our communities on their views and proposals on the new budget and IDP. This was a successful exercise that assisted the municipality to compile a realistic and achievable budget and implementable projects in the coming financial year. I therefore wish to commend our team of Ward Committees, Community Development Workers (CDWs) and broader society for ensuring maximum participation in some of our areas. Our municipal officials have also done wonderful work by compiling these documents that we will be presenting here today.

## **Local Economic Development**

Consistent with the vision “A prosperous community with a futuristic economy” we acknowledge the mandate bestowed upon us by the Constitution as well as the developmental character of local government in respect promotion of both social and economic development. Central to a creation of prosperous community in Gamagara, is creation of an enabling environment that cultivates a culture of entrepreneurship wherein virtually all entrepreneurial endeavours of our local entrepreneurs are adequately supported, and also ensure promotion and attraction of investments into our local economy. This noble cause we pursue in the context that our government has already set in place institutions, policies and programmes to stimulate economic activity even at local level,

and as a municipality we took an effort to ensure that our local enterprises are exposed to these interventions.

Having acknowledged the role that business sector in general and SMMEs in particular could play in growth and development of our local economy, as well as a need of access to information about existing interventions and opportunities. The municipality held a very successful Local Economic Development Information workshop attended by more than 120 SMMEs and Development Finance Institutions, government departments and private sector. Our local SMMEs were exposed to services and opportunities in respect to funding, training and linkages to both local and international markets available within these stakeholders. The institutions that presented included the National Empowerment Fund (NEF), Industrial Development Corporation (IDC), Department of Trade and Industry (dti), Small Enterprise Finance Agency (SEFA), Small Enterprise Development Agency (SEDA), National Youth Development Agency (NYDA), NC Department of Economic Development, and Kumba.

In order to improve levels of economic activity the municipality in partnership with the mines has started to work on a revival of the LED projects that were once part of the SLPs which include brick making, general wood and furniture making as well as leather and tannery.

Having noted that part of the challenges facing SMMEs is access to business facilities, the municipality will use an opportunity provided by DTI to access a grant available for development of business facilities to be used by our local SMMEs, and also provide them with a necessary business mentoring support.

In order to have a coordinated and comprehensive response to the challenges faced by our local economy due to a decline in the commodity prices that resulted in significant losses of jobs, not only in the mining sector but also in other sectors that are dependent on the mines, the municipality will develop a new Local Economic Development Strategy that will be informed by the adequate research in the local economic dynamics to ensure that responsive and



effective interventions are identified. Priority will also be to ensure that our economy is adequately diversified and therefore reduce overreliance on the mines to minimize the curse of resources based economies. The strategy will be adopted in the new financial year and platforms will be created for interested and affected parties to make their contribution, and in that light I encourage all members of the community including and the business sector to take advantage of that opportunity.

### **Unemployment and Job Creation**

According to Stats SA report Gamagara local municipality account for a total growth rate of 5.84% in 2001 – 2011 with the unemployment rate of 17.7%. The youth unemployment rate constitute 22.4% from these percentages. This remains a critical challenge despite the fact that we are hosting the biggest employer and contributor in to our national GDP. And our area in terms of skills development host the centre that produces various technical skills required by the mining industry but yet we still find ourselves in the huge youth unemployment rate. This is the ongoing process that we still need to address in order for us to improve on the quality of lives for our people.

We will urge all sectors to work closely with government to attend to these alarming statistical reports. And by so doing we will intensify our engagement with the mines and all other strategic sector of economy to improve the lives of our people especially the youth and the unemployed.

Through our government program we have been doing well by at least recruiting our people to the Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP). These were the job opportunities programme made possible by our Provincial Government and it has contributed in the reduction of poverty and unemployment as some of these participants are being absorbed permanently within the municipality and other contractors at the mining sector.

The other major contributors of job creation in our municipality are the two (2) biggest solar plants that during the construction period has employed many people from all areas of Gamagara especially in Deben Ward 2 as the host ward for this projects. We are also expecting one or two other solar plants into our municipality alongside N14 where we are hoping that experience solar plant workers will be reemployed as part of creating sustainable jobs for our people.

### **Education, Skills and Training**

This is one of the other element that mandated government to work on to improve and develop the necessary skills required by the economy. Over the past five (5) years we have coordinated and successfully managed the process of recruiting close to 25 young matriculants who were the academically deserving into Gamagara Assmang Bursary Scheme (GABS). This was the initiative made possible by the partnership between the Mine Assmang Khumani and the municipality. These projects were classified under the SLP projects of Khumani and we are proud to report today to this council that almost 70% of these beneficiaries completed their university degrees and some have enrolled for Honours that was also funded by the scheme. The remaining 30% of the beneficiaries will be completing this year as we mark the end of the 5 year period of SLP with Khumani.

There was also training programmes that were undertaken by other sector departments through our local youth development centre. Many young people were trained in various fields, today there are 100 young people that will be trained in Plumbing, Building, Welding and Carpentry in a learnership program through LGSETA. The other 100 young people will also be trained in the IT learnership programme, where the recruitment is already done and all candidates interviewed, anticipated to start in June this year.

### **Infrastructure Challenges**

The exponential growth that we reflected earlier has contributed in the infrastructure challenges we are faced with in some of the wards. To that effect we have developed the masterplans that will assist council to plan properly for the outer years especially on water, electricity and sewer. The roads are also part of the infrastructure challenge especially in the main entrance of Kathu. We have requested provincial department to handover these roads to us so that the municipality can plan and maintain them efficiently.

The most critical area at the moment is still Mapoteng/ Sesheng Ward 5 with the infrastructure that is overpopulated and this resulted in the continuous sewer overflow and blockages. This is the problem that we are currently giving attention and our technical team is working tirelessly to address this challenges as when are reported.

### **Free Basic Services**

The municipality through its indigent policy have been providing free basic service to all our registered consumers. There are quite reasonable numbers of indigents registered in our data base that we provide with services for free. We will continue to encourage our people to register as indigents especially those who are not employed, child headed families as well as pensioners.

### **Municipal Demarcation Board – New ward delimitation**

The Gamagara council was in the past constituted by five (5) municipal wards and after the recent ward delimitation processes we were given two (2) additional wards. This was a clear indication that our municipality has grown from strength to strength. Our population has grown to over 41 000 as you compare to the 36 000 in the past.

### **Dingleton Relocation**

The Dingleton relocation process has been one of most challenging projects that we handled together with the provincial government and the relocation committee. There were many engagement that we embarked upon with many

in the community of Dingleton especially the young people in the area. There were many legitimate concerns raised by some of the structures in dissatisfaction about the whole process.

The process is currently underway and there are many people who have relocated to the host side in Kathu at phase four (4). However we still note that there are still outstanding issues to be handled by the relocation committee and the company Kumba-Anglo American. The other challenge that is still to be addressed is the repercussion of relocation, we have observed that this relocation has created many criminal elements where people steal water meters and the cables from the street lights poles. We need to work together with all sectors to prevent more destruction and stealing.

#### **Disaster and Fire Fighting Unit**

The council has established the firefighting unit that is contracted through Rural Metro, this is one of our successful stories and project that was meant to save and protect our communities especially during fire incidences. The official launch of this unit will be done before the end of June in 2016 where the whole equipment and machinery for firefighting will be on side to render the service to our community effectively. The unit appointed 23 staff that consist of 19 firefighter and 5 control room operators.

#### **Municipal Call Centre**

We have also established a call centre that will be assisting the municipality in providing better services to our community. The centre has appointed nine (9) young people to work and operate the centre, all of them are from Gamagara wards.

#### **Mayoral Outreach Program**

The office of the mayor initiated this programme and it has served as one of the popular programmes of the mayor on Fridays. The programme has successfully attended to some of the community queries and other service delivery related programmes. We will continue to engage our communities through this

programme as it has proven to be one of the best contact of our senior management with the community.

## **OVERVIEW OF THE 2016/2017 BUDGET**

The total operating revenue has grown by 13 per cent or R74 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. For the two outer years, operational revenue will increase by 6% per cent respectively, equating to a total revenue growth of R153.7 million over the Medium Term Revenue Expenditure Frame (MTREF) when compared to the 2015/16 financial year.

Total operating expenditure for the 2016/17 financial year has been appropriated at **R528 million** and translates into a budgeted surplus of R95 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has grown by 7 per cent in the 2016/17 budget and by 5 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years increases by 8 percent to R102 million and R111 million respectively. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The **capital budget** of **R278 million** for 2016/17 is 167 percent more when compared to the 2015/16 Adjustment Budget. The **capital programme** decreases to **R246** and **R248 million** in the 2017/18 and 2018/19 financial years respectively. A substantial portion of the capital budget will be funded from the surplus from internally generated funds over the MTREF with anticipated surplus of R95 million in 2016/17 financial year. Internally generated funds will contribute 34 per cent of capital expenditure in the budget year 2016/17 when government grant transfers and contributions are excluded. This demonstrate Gamagara Municipality's sustainability as a going concern as we are less reliant on grants and subsidies from government.

## Tariffs

The municipalities review its tariffs legislatively to determine if they are still capable of producing the required revenue taking into account various factors from both internal and external. This tariffs are in line with the council policy on tariffs that consider affordability by the municipal customers.

The following tariffs and percentages will be effected as from the 01<sup>st</sup> of July 2016:

- Property rates = 6.6%
- Electricity = 7.64%
- Water = 6.6%
- Sanitation = 6.6%
- Waste removal = 6.6%

It is also important to state that the increase on tariffs are somehow dictated by the regulators and service authorities especially on water and electricity. We know over the past few years our people raised serious concerns about the high tariffs on the services rendered by the municipality compared to others. With the current economic challenges that has led to job losses in the mining sector we are anticipating more challenges with regard to the municipal services and payment. Be as it may we will continue to work with our people to educate them on how to use these service to avoid high bills at the end of the month that might led to drastic credit control measures.

It is also appropriate to make some few acknowledgement to the council, as today marks almost five (5) of this council term by seriously acknowledging the role of all councillors since our elections in 2011, that you have played your role, you have created a legacy of good governance and a caring municipality that provided a high level of service to all its residents. The road was not easy, in the process we have lost some of our colleagues about 3 of them Cllr. Diniza, Cllr. Van Heever and Cllr. Johnson (may their soul rest in peace). All of us collectively

we have made a meaningful contribution to service our people. To also acknowledge the administration for providing a sound administration although we could not get a total clean audit and I am certain that we are in the right direction towards clean audit.

All our municipal staff and the EPWP workers you have also played your part and I will urge you to continue with your good work we are proud of you.

Lastly let me thank my organisation the African National Congress (ANC) for affording me the opportunity to lead this council, my family and comrades. Thank you so much for your support throughout.

For the coming local government elections, we will pray for a free and peaceful elections with high political tolerance amongst parties and its members. We remain confident in our Electoral Commission to deliver a free and fair elections. To all those who are campaigning, we wish you well and we hope to see all of you in the next term of council.

Honourable Councillors, ladies and gentlemen

Allow me to present this budget of 2016/2017 financial year for approval by council of Gamagara Local Municipality in line with section 24(1) of Local Government Municipal Finance Management Act No. 56 of 2003.

The detailed budget in terms of rents and cents will be reflected in the table below by the Chief Financial Officer.

Thank you!!!

## 1.2 Council Resolutions

On 25 May 2016 the Council of Gamagara Local Municipality met in the Council Chambers of Gamagara Municipality for the tabling of the final annual budget of the municipality for the financial year 2016/17.

The Council approved and adopted the following resolutions:

1. The Council of Gamagara Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1. The final annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2;
    - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3;
    - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4; and
    - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.
  - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
    - 1.2.1. Budgeted Financial Position as contained in Table A6;
    - 1.2.2. Budgeted Cash Flows as contained in Table A7;
    - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;
    - 1.2.4. Asset management as contained in Table A9; and
    - 1.2.5. Basic service delivery measurement as contained in Table A10.
2. The Council of Gamagara Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) as amended, approves and adopts with effect from 1 July 2016:
  - 2.1. the tariffs for property rates – as set out in Annexure A/ SA11, SA13a & SA13b
  - 2.2. the tariffs for electricity supply – as set out in Annexure A/ SA11, SA13a & SA13b
  - 2.3. the tariffs for the supply of water – as set out in Annexure A/ SA11, SA13a & SA13b
  - 2.4. the tariffs for sanitation services – as set out in Annexure A/ SA11, SA13a & SA13b
  - 2.5. the tariffs for solid waste services – as set out in Annexure A / SA11, SA13a & SA13b
3. The Council of Gamagara Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) as amended, approves and adopts with effect from 1 July 2016 the tariffs for other services, as set out in Annexure A.
4. To give proper effect to the municipality's annual budget, the Council of Gamagara Local Municipality approves:



- 4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates and service charges to ensure that all capital reserves and provisions, unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.
5. That council takes note of the Service Level Standards outline (Annexure C) for final approval.
6. That council takes note of the budget related policies
7. That council authorises the Accounting Officer to kick start the front loading process with the Development Bank of South Africa (DBSA) to the value of R85 million for the Olifantshoek bulk electricity, that needs to be paid to Eskom within sixty days of receipt of a budget quote
8. That council approves that prepaid meters be installed to willing customers at the municipality's costs and recovered from the customer over a period of three (3) to twelve (12) months depending on the affordability.

### **1.3 Executive Summary**

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. National Treasury's MFMA Circular No. 51, 54, 70, 72, 74, 75, 78 and 79 were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and the expanding town which requires upgrading of most of our bulk services;
- The increased cost of bulk water and electricity (due to tariff increases from Sedibeng Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff as well as the need to fill critical vacancies;
- Affordability of capital projects – Capital projects had to be reduced as a results of huge operational expenditure commitments, i.e. Bulk purchases, critical vacancies, depreciation, etc.
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2016/17 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and Electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2016/17 MTREF**

R thousand	Adjustment Budget 2015/16	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Total Operating Revenue	549 966	624 092 13%	662 479 6%	703 675 6%
Total Operating Expenditure	490 489	528 999 8%	559 773 6%	592 328 6%
Surplus/(Deficit) for the year	59 477	95 092 56%	102 706 8%	111 347 8%
Total Capital Expenditure	104 341	278 844 167%	246 793 (15%)	248 439 (1%)

Total operating revenue has grown by 13 per cent or R74 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. For the two outer years, operational revenue will increase by 6% per cent respectively, equating to a total revenue growth of R153.7 million over the MTREF when compared to the 2015/16 financial year.

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## 1.4 Operating Revenue Framework

For Gamagara to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. We will also need to come up with smart revenue collection methods, i.e. smart/prepaid meters and strong economic development policies that are cost reflective, i.e. bulk services, in order to keep up with the growth of the town.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source)

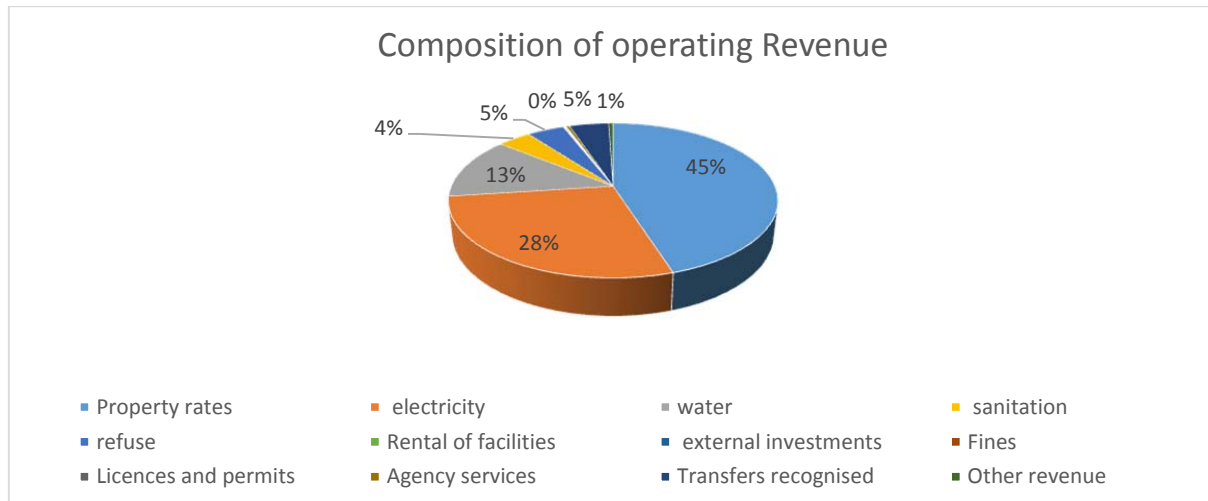
NC453 Gamagara - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>R thousand</b>	<b>1</b>										
<b>Revenue By Source</b>											
Property rates	2	19 928	23 623	124 687	419 611	231 942	231 942	356 417	281 254	297 567	314 826
Property rates - penalties & collection charges		-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	71 535	111 303	61 704	119 038	150 538	150 538	80 656	173 705	183 780	194 439
Service charges - water revenue	2	28 713	47 252	17 082	48 394	70 394	70 394	37 600	80 776	85 784	90 845
Service charges - sanitation revenue	2	10 269	37 393	17 082	17 731	21 231	21 231	14 761	24 435	25 950	27 481
Service charges - refuse revenue	2	11 496	13 700	15 848	15 756	20 756	20 756	13 272	27 126	28 808	30 508
Service charges - other		-	0	50 438	-	-	-	-	-	-	-
Rental of facilities and equipment		1 737	630	254	685	685	685	215	730	775	821
Interest earned - external investments		145	446	1 120	529	529	529	219	450	476	504
Interest earned - outstanding debtors		-	-	-	-	-	-	-	-	-	-
Dividends received		-	-	-	-	-	-	-	-	-	-
Fines		368	775	363	324	824	824	254	607	642	679
Licences and permits		848	1 055	830	919	919	919	124	500	529	560
Agency services		2 036	2 476	2 473	2 304	2 304	2 304	601	2 456	2 598	2 749
Transfers recognised - operational		90 776	28 993	25 913	27 256	30 695	30 695	16 168	28 792	32 117	36 608
Other revenue	2	3 338	5 979	2 623	3 596	3 596	3 596	1 127	3 260	3 453	3 656
Gains on disposal of PPE		2 993			15 000	15 554	15 554	554	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>244 184</b>	<b>273 626</b>	<b>320 417</b>	<b>671 141</b>	<b>549 966</b>	<b>549 966</b>	<b>521 970</b>	<b>624 091</b>	<b>662 479</b>	<b>703 675</b>

25 May 2016

and

as depicted in this chart below property rates being the major revenue stream contributes 45% of the total operating revenue budget.



Revenue generated from rates and services charges increased by 19% and forms a significant percentage of the revenue basket for the Municipality mainly due to the strengthening of the debt collection efforts to collect the outstanding debt in the 2016/17 financial year.

The drop in the rates revenue in the 2016/17 annual budget is due to the ongoing dispute with the mines, and we only budgeted for what the mines committed to pay and not the entire valuation projected revenue. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Operating grants and transfers totals R28.7 million in the 2016/17 financial year and steadily increases to R32.1 and R36.6 million by 2017/18 and 2018/19 respectively.

**Table 2 Operating Transfers and Grant Receipts**

Description	Current Year Adjusted budget 2015/16	Budget year 2016/17	Budget year +1 2017/18	Budget year +2 2018/19
<b>R thousand</b>				
<b>Nat/ Prov. Gov &amp; Other</b>	<b>24 579</b>	<b>28 792</b>	<b>32 117</b>	<b>36 608</b>
Equitable Share	22 923	25 352	28 577	32 601
Finance Management	1 600	1 625	1 700	1 955
System Improvement	934	-	-	-
Library Dev Grant	1 538	1 565	1 575	1 772
SETA	264	250	265	280

## TARIFFS

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Sedibeng Water bulk tariffs are far beyond the inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and water increases is immense and these tariffs are outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of Electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

#### **1.4.1 Property Rates**

Property rates cover the cost of the provision of general services and contributes substantially to essential non-trading services capital outlay, i.e. community services, public safety, libraries, etc. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 25:1.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 20 per cent rebate will be granted on all state owned residential properties including schools;
- 50% will be granted to government hospitals and 25% to private hospitals
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- 100 per cent rebate will be granted to churches in terms of the rates Policy;
- 100 per cent rebate will be granted to public service infrastructure such as roads and rail ways;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 20 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:

- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependents without income;
  - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
  - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
  - The property must be categorized as residential.
- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2016/17 financial year based on a 6.6 per cent increase from 1 July 2016 is contained below:

**Table 3 Comparison of proposed rates to be levied for the 2015/16 financial year**

<b>Category</b>	<b>Current Tariff (1 July 2015)</b>	<b>Proposed tariff (from 1 July 2016)</b>
Properties	<b>C</b>	<b>C</b>
Residential	0.008982	0.009575
Industrial	0.015718	0.016755
Business and commercial	0.017964	0.019149
Agricultural	0.000719	0.000766
State Owned	0.008982	0.009575
Education	0.008982	0.009575
Mining	0.017964	0.019149

#### **1.4.2 Sale of Water and Impact of Tariff Increases**

South Africa faces similar challenges with regard to water supply as it did with Electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability. Sedibeng Water has increased its bulk tariffs with 8 per cent from 1 July 2016, which increase contributes to approximately 48 per cent of the Municipality's water input cost.

Sedibeng Water has undertaken a critical assessment of its capital infrastructure requirements. The assessment indicates that Sedibeng Water's current infrastructure is unlikely to sustain its

long-term ability to supply water and they had no other choice but to enter capital markets to raise R1 billion for infrastructure upgrades, hence the significant increase in the bulk cost of water.

A tariff increase of 6,6 per cent from 1 July 2016 for water is proposed. This is based on input cost assumptions of 8 per cent increase in the cost of bulk water, the cost of other inputs increasing by 6 per cent and a surplus generated on the water service of a minimum 15 per cent. A summary of the proposed tariffs for households (residential) and non-residential are as follows:

**Table 4 Proposed Water Tariffs**

A dual system, for the supply of potable water (indoor) and untreated or outdoor water exist in Kathu, as a result we have a twofold approach to charges in the step tariff structure below:

CATEGORY	CURRENT TARIFFS 2015/16	PROPOSED TARIFFS 2016/17
	Rand per kℓ	Rand per kℓ
<b>Portable</b>		
(i) 001 to 00006 kℓ per 30-day period	8.60	9.17
(iii) 007 to 00012kℓ per 30-day period	10.27	10.95
(iv) 013 to 00035kℓ per 30-day period	13.68	14.58
(v) 036 to 99999kℓ per 30-day period	16.25	17.32
<b>RAW/UNTREATED</b>		
(i) 001 to 00200 kℓ per 30-day period	5.27	5.62
(ii) 201 to 00300kℓ per 30-day period	6.43	6.85
(iii) 301 to 00400kℓ per 30-day period	10.25	10.92
(iv) 401 to 99999kℓ per 30-day period	14.26	15.20

The tariff structure of the 2015/16 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate, steadily increasing to a rate of R17.32 per kilo liter for consumption in excess of 36kℓ per 30 day period.

#### 1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk Electricity pricing structure. A 7.64 per cent increase in the Eskom bulk Electricity tariff to municipalities will be effective from 1 July 2016.

Considering the Eskom increases, the consumer tariff had to be increased by 7.64 per cent to offset the additional bulk purchase cost from 1 July 2016. Furthermore, it should be noted that given the magnitude of the tariff increase that are higher than CPI, it is expected to depress growth in Electricity consumption, which will have a negative impact on the municipality's revenue from Electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge. The following table shows the increases of electricity tariffs:

The table below which represents an application submitted to NERSA for the approval of the 2016/17 tariffs, also confirms compliance with the approved tariffs 2015/16 implemented, followed by the proposed increases in energy, basic and demand charges for:

1. Domestic customers and
2. Commercial/ Agricultural/ Industrial and Government School customers.

## NC453 - Tariff Application

1. Domestic - Customers (Single & Three Phase)				
Tariff name	2015/16 Nersa Approved	2015/16 Implemented	2016/17 Proposed	% Increase
<b>Domestic Prepaid Meters - c/kWh</b>				
Block 1. (0-50kWh)	78.66	78.66	83.78	6.50
Block 2. (51-350kWh)	99.79	99.79	106.28	6.50
Block 3. (351-600kWh)	141.37	141.37	151.97	7.50
Block 4. (>600kWh)	166.06	166.06	178.74	7.64
<b>Domestic Conventional Meters – c/kWh</b>				
Block 1. (0-50kWh)	83.34	83.34	83.34	0.00
Block 2. (51-350kWh)	106.50	106.50	106.50	0.00
Block 3. (351-600kWh)	140.00	140.00	145.31	7.64
Block 4. (>600kWh)	162.00	162.00	159.31	7.64
Basic Charge (R/Month)	105.00	105.00	<b>125.00</b>	19.05
2. Commercial/ Agricultural/ Industrial/ Government Schools – Customers				
Tariff name				
<b>Commercial Prepaid (Single phase)</b>				
- Energy charge (c/kWh)	164.00	164.00	176.53	7.64
<b>Commercial Prepaid (Three phase)</b>				
- Energy charge (c/kWh)	164.38	164.38	176.94	7.64
<b>Commercial Conventional (Single phase)</b>				
- Energy charge (c/kWh)	148.51	148.51	159.85	7.64
- Basic charge (R/month)	238.57	238.57	256.80	7.64
<b>Commercial Conventional below 100A (Three phase)</b>				
- Energy charge (c/kWh)	134.70	134.00	145.00	7.64
- Basic charge (R/month)	351.02	351.02	377.84	7.64
<b>Government schools over 100A (Three phase)</b>				
- Energy charge (c/kWh)	-	-	145.00	-
- Basic charge (R/month)	-	-	377.84	-
<b>Agricultural Conventional below 100A T/P</b>				
- Energy charge (c/kWh)	104.17	104.17	145.00	39.20
- Basic charge (R/month)	1 343.61	1 343.61	<b>377.84</b>	-71.88
- Demand charge (R/kVA)	56.94	56.94	-	-
<b>Industrial/ Commercial/ Agricultural over 100A T/P</b>				
- Energy charge (c/kWh)	110.00	110.00	118.00	7.64
- Basic charge (R/month)	1 418.19	1 418.19	<b>377.84</b>	-73.36



- Demand charge (R/kVA)	56.95	56.95	125.00	88.00
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The proposed tariff increases for the trade in electricity will be subjected to the final approval of NERSA before the 1 July 2016.

It should further be noted that we are implementing a stepped tariff structure for electricity. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

The inadequate Electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. Most of the suburbs and inner Municipality reticulation network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the Municipality's Electricity network has therefore become a strategic priority, especially the substations and transmission lines.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply).

Owing to the high increases in Eskom's bulk tariffs, an electricity bulk services contribution policy as a strategy for funding of the infrastructure has been approved in the previous financial year to spread the burden over the life span of the assets. As part of the 2016/17 medium-term capital programme, funding has been allocated to Electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

#### 1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 6,6 per cent for sanitation from 1 July 2016 is proposed. This is based on the input cost assumptions of 35 percent related to water. It should be noted that Electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore higher electricity increase has a direct impact on the sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the table below;
- Free sanitation (100 per cent of 6 kℓ water) will be applicable to registered indigents; and
- The total revenue expected to be generated from rendering this service amounts to R24 million for the 2016/17 financial year.

The following table compares the current and proposed tariffs:

CATEGORY	CURRENT TARIFF PER kℓ	PROPOSED TARIFF PER kℓ
	R	R
	2015/16	2016/17
Sewer	4.60	4.90
Basic charge	71.36	76.07
Availability charge (empty erven with services)	306.64	326.88
Availability charge (erven with a structure)	61.94	66.03

Vacuum tank – 5000 liter/or part thereof: Non Resident	271.35	289.26
Connection charges (new erven)	1 084.75	1 156.35
Disposal of sewer at WWTW/10 000l	1 188.76	1 267.22
Sanitation charge per kl	2.81	3.00

**Table 5 Comparison between current sanitation charges and increases**

#### 1.4.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models, i.e. nearer land fill and cost effective routes, outsourcing, etc. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6.6 per cent increase in the waste removal tariff is proposed from 1 July 2016. Higher increases will not be justifiable now, owing to outstanding investigation that will guide a cost reflective and most viable model.

The following table compares current and proposed amounts payable from 1 July 2016:

**Table 6 Comparison between current waste removal fees and increases**

	Current Tariffs 2015/16 R per Month	Proposed Tariffs 2016/17 R per month
Garden Refuse (Load)	185.00	197
Removal of trees (Load)	437.94	467
Building waste (load)	742.98	792
Incineration of documents –Consignment	444.55	474
Household refuse (1Xweekly)	119.84	128
Business refuse (only food premises 3 x weekly)	245.53	262
General business refuse (2xweekly)	196.42	209
Pensioners - Refuse	80.80	86

Private developers refuse removal will be discounted by 40% where they collect and dump the waste to the waste disposal site provided they applied in writing and approval was granted. There are also new tariffs on waste minimization and recycling contained in the bound tariff structure.

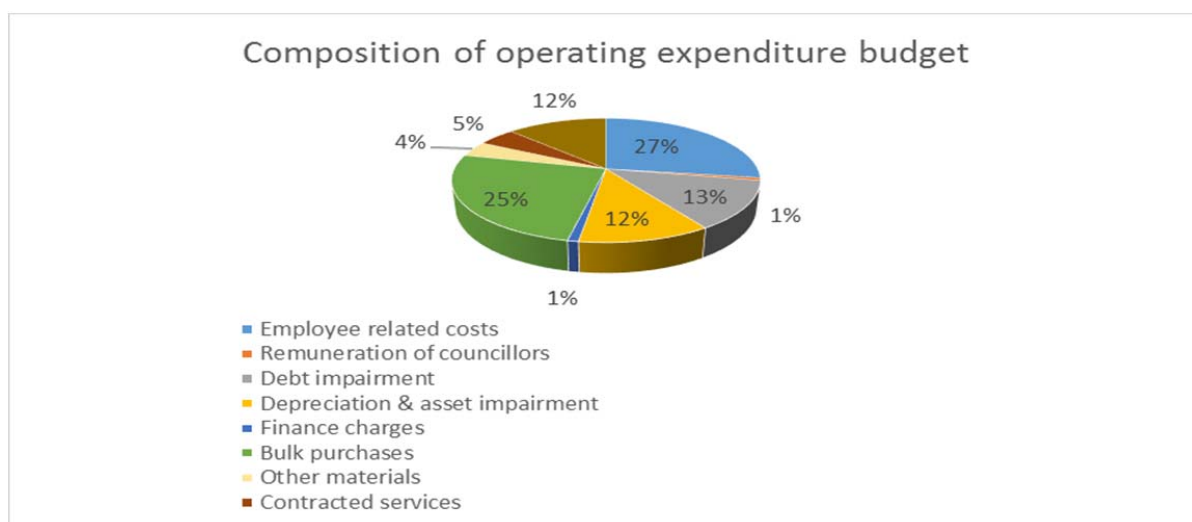
### 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherences to the principle of no project plan *no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of operating expenditure):

**Table 4 Chart-Composition and Summary Table of operating Expenditure by Type**



NC453 Gamagara - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										

Expenditure By Type											
Employee related costs	2	67 488	83 936	105 186	146 261	124 898	124 898	91 995	143 568	151 914	160 730
Remuneration of councillors		2 368	2 637	2 793	3 208	3 316	3 316	3 316	3 548	3 768	3 990
Debt impairment	3	6 849	9 724	66 635	7 246	66 635	66 635	66 635	66 635	70 767	74 942
Depreciation & asset impairment	2	52 734	54 720	58 214	58 019	58 019	58 019	43 515	61 503	65 072	68 846
Finance charges		5 234	3 984	3 352	5 440	6 691	6 691	6 691	5 044	5 337	5 646
Bulk purchases	2	69 794	82 149	96 891	124 019	124 019	124 019	74 345	133 686	141 440	149 643
Other materials	8	15 312	–	15 701	–	–	–	–	20 891	22 103	23 385
Contracted services		4 660	4 901	11 026	25 591	19 627	19 627	8 350	24 972	26 439	27 977
Transfers and grants		13 063	9 379	2 403	6 901	10 160	10 160	10 160	–	–	–
Other expenditure	4, 5	24 097	34 396	35 037	90 304	77 123	77 123	39 942	69 151	72 934	77 167
Loss on disposal of PPE		–	525	–	–	–	–	–	–	–	–
<b>Total Expenditure</b>		<b>261 599</b>	<b>286 353</b>	<b>397 239</b>	<b>466 989</b>	<b>490 489</b>	<b>490 489</b>	<b>344 949</b>	<b>528 999</b>	<b>559 773</b>	<b>592 328</b>
<b>Surplus/(Deficit)</b>		<b>(17 416)</b>	<b>(12 727)</b>	<b>(76 822)</b>	<b>204 151</b>	<b>59 477</b>	<b>59 477</b>	<b>177 021</b>	<b>95 092</b>	<b>102 706</b>	<b>111 347</b>
Transfers recognised - capital			26 391	22 447	71 009	32 864	32 864	32 864	45 103	144 087	137 092
Contributions recognised - capital	6	–	–	–	75 000	12 000	12 000	493	53 649	–	–
Contributed assets			31 190	6 408	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>(17 416)</b>	<b>44 854</b>	<b>(47 967)</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>210 378</b>	<b>193 844</b>	<b>246 793</b>	<b>248 439</b>
Taxation											
<b>Surplus/(Deficit) after taxation</b>		<b>(17 416)</b>	<b>44 854</b>	<b>(47 967)</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>210 378</b>	<b>193 844</b>	<b>246 793</b>	<b>248 439</b>
Attributable to minorities											
<b>Surplus/(Deficit) attributable to municipality</b>		<b>(17 416)</b>	<b>44 854</b>	<b>(47 967)</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>210 378</b>	<b>193 844</b>	<b>246 793</b>	<b>248 439</b>
Share of surplus/ (deficit) of associate	7										
<b>Surplus/(Deficit) for the year</b>		<b>(17 416)</b>	<b>44 854</b>	<b>(47 967)</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>210 378</b>	<b>193 844</b>	<b>246 793</b>	<b>248 439</b>

The budgeted allocation for employee related costs for the 2016/17 financial year totals R143 million, which equals 27 per cent of the total operating expenditure.

SALGA and Trade Unions (IMATU and SAMWU) in implementing The *Salary and Wage Collective Agreement* for the period 1 July 2016 agreed to a 6 percent increase.

The gazette for 2015 on the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998) which will indicate the actual costs to budget for the remuneration of councilors is still to be released. The most recent proclamation of 5 percent in this regard has been taken into account in compiling the Municipality's final budget.

The provision of debt impairment was determined based on an annual collection rate of 95 per cent and the Debt Write-off Policy of the Municipality. For the 2016/17 financial year this amount equates to R66 million. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R61 million for the 2016/17 financial year and equates to 12 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 1.3 per cent of operating expenditure excluding annual redemption for 2016/17.

Bulk purchases are directly informed by the purchase of Electricity from Eskom and water from Sedibeng Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials and expenditure comprises of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. Other expenditure comprises of

various line items relating to the daily operations of the municipality. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritized to ensure sustainability of the Municipality's infrastructure.

### **1.5.1 Priority given to repairs and maintenance**

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2016/17 budget and MTREF provide for extensive growth in the area of asset maintenance. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

### **1.5.2 Free Basic Services: Basic Social Services Package**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 3 000 or more indigent households during the 2016/17 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement).

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

## **1.6 Capital expenditure**

The following table provides a breakdown of budgeted capital expenditure by vote:

**Table 5 2016/17 Medium-term capital budget per vote**

NC453 Gamagara - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										
<b>Capital expenditure - Vote</b>											
<b>Multi-year expenditure to be appropriated</b>	2										
Vote 1 - Executive & Council		-	-	-	-	-	-	-	-	-	-
Vote 2 - Budget & Treasury Office		-	-	-	-	-	-	-	-	-	-
Vote 3 - Corporate Services		-	-	-	1 200	300	300	-	-	-	-
Vote 4 - Community Service		-	-	1 739	12 550	1 200	1 200	-	1 500	7 000	7 000
Vote 5 - Infrastructure Services		24 298	28 208	33 731	129 289	59 464	59 464	20 865	47 569	239 793	241 439
Vote 6 - Shared Services		-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital multi-year expenditure sub-total</b>	7	24 298	28 208	35 470	143 039	60 964	60 964	20 865	49 069	246 793	248 439
<b>Single-year expenditure to be appropriated</b>	2										
Vote 1 - Executive & Council		154	325	19	1 342	-	-	-	1 020	-	-
Vote 2 - Budget & Treasury Office		3 526	182	102	1 239	225	225	204	180	-	-
Vote 3 - Corporate Services		-	431	4 568	9 270	500	500	307	7 700	-	-
Vote 4 - Community Service		43 023	1 698	8 522	17 439	7 123	7 123	1 224	17 284	-	-
Vote 5 - Infrastructure Services		-	71 462	21 891	175 784	33 981	33 981	19 484	203 591	-	-
Vote 6 - Shared Services		-	-	23	2 049	1 549	1 549	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		46 702	74 098	35 126	207 122	43 377	43 377	21 219	229 775	-	-
<b>Total Capital Expenditure - Vote</b>		71 000	102 305	70 596	350 161	104 341	104 341	42 084	278 844	246 793	248 439
<b>Capital Expenditure - Standard</b>											
<b>Governance and administration</b>		2 651	938	4 689	13 050	1 025	1 025	511	8 900	-	-
Executive and council		44	325	19	1 342	-	-	-	1 020	-	-
Budget and treasury office		283	182	102	1 239	225	225	204	180	-	-
Corporate services		2 324	431	4 568	10 470	800	800	307	7 700	-	-
<b>Community and public safety</b>		12 650	6 979	6 899	57 669	8 483	8 483	2 971	18 334	7 000	7 000
Community and social services		2 472	342	251	3 453	2 442	2 442	55	1 534	-	-
Sport and recreation		3 586	606	2 045	13 500	3 610	3 610	1 134	12 250	-	-
Public safety		1 161	18	7	7 930	15	15	-	1 550	7 000	7 000
Housing		5 431	6 002	4 557	32 730	2 360	2 360	1 746	3 000	-	-
Health		-	12	38	55	55	55	35	-	-	-
<b>Economic and environmental services</b>		11 923	20 504	7 060	19 549	8 249	8 249	12 798	1 000	6 000	10 000
Planning and development		393	377	42	5 549	1 949	1 949	5	1 000	1 000	-
Road transport		11 530	20 127	7 017	14 000	6 300	6 300	12 793	-	5 000	10 000
Environmental protection		-	-	-	-	-	-	-	-	-	-
<b>Trading services</b>		43 776	73 885	51 949	259 893	86 585	86 585	25 805	250 610	233 793	231 439
Electricity		2 483	27 212	8 414	115 150	41 700	41 700	2 162	169 042	76 394	128 000
Water		5 653	17 744	15 184	106 545	28 737	28 737	15 221	56 715	49 812	86 830
Waste water management		34 970	28 208	20 408	32 648	13 948	13 948	8 422	21 403	107 587	16 609
Waste management		671	721	7 942	5 550	2 200	2 200	-	3 450	-	-
<b>Other</b>		-	-	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure - Standard</b>	3	71 000	102 305	70 596	350 161	104 341	104 341	42 084	278 844	246 793	248 439
<b>Funded by:</b>											
National Government		71 000	18 938	12 124	32 864	32 864	32 864	12 101	43 103	144 087	67 762
Provincial Government		-	7 189	3 375	38 145	-	-	-	2 000	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	71 000	26 127	15 499	71 009	32 864	32 864	12 101	45 103	144 087	137 092
Public contributions & donations	5	-	31 190	9 443	75 000	12 000	12 000	493	53 649	-	-
Borrowing	6	-	-	-	-	-	-	-	85 000	-	-
Internally generated funds		-	44 988	45 655	204 151	59 477	59 477	29 490	95 092	102 706	111 347
<b>Total Capital Funding</b>	7	71 000	102 305	70 596	350 161	104 341	104 341	42 084	278 844	246 793	248 439

For 2016/17 an amount of R251 million has been appropriated for the development of infrastructure which represents 90 per cent of the total capital budget. Community Services is the second biggest capital appropriation with an allocation of R18.7 million followed by Corporate Services with an allocation of R7.7 million. Please refer to table A5 and supporting table SA36 on the detail of the capital budget.

### 1.6.1 Capital Funding

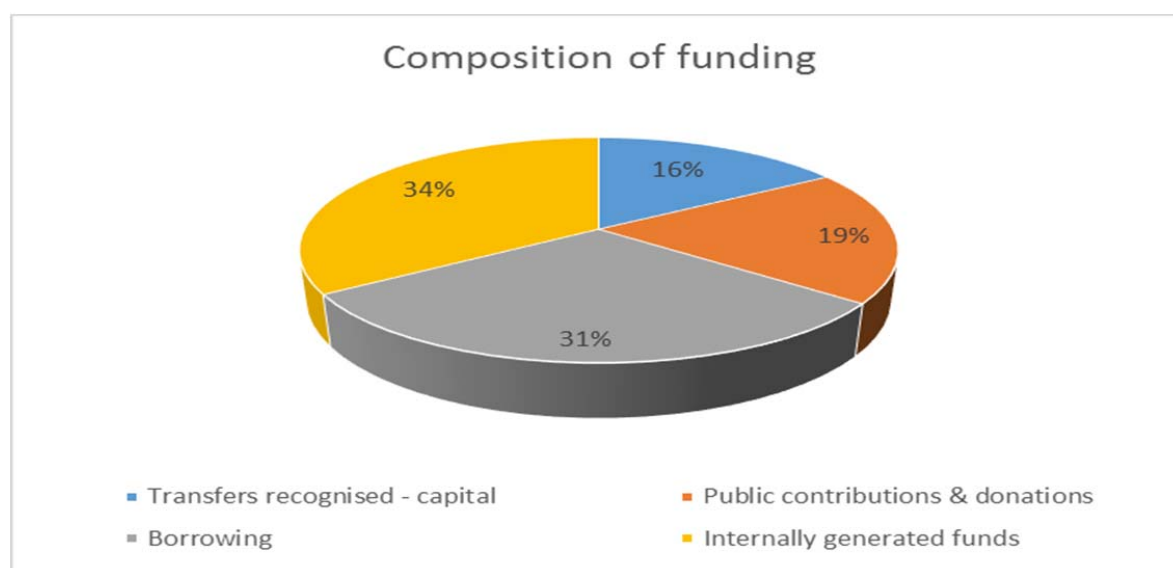
NC453 Gamagara - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description R thousand	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Funded by:</b>											
National Government		71 000	18 938	12 124	32 864	32 864	32 864	12 101	43 103	144 087	67 762
Provincial Government			7 189	3 375	38 145	-	-	-	2 000	-	-
District Municipality				-	-	-	-	-	-	-	-
Other transfers and grants				-	-	-	-	-	-	-	-
Transfers recognised - capital	4	71 000	26 127	15 499	71 009	32 864	32 864	12 101	45 103	144 087	137 092
Public contributions & donations	5		31 190	9 443	75 000	12 000	12 000	493	53 649	-	-
Borrowing	6			-	-	-	-	-	85 000	-	-
Internally generated funds			44 988	45 655	204 151	59 477	59 477	29 490	95 092	102 706	111 347
<b>Total Capital Funding</b>	<b>7</b>	<b>71 000</b>	<b>102 305</b>	<b>70 596</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>42 084</b>	<b>278 844</b>	<b>246 793</b>	<b>248 439</b>

This portion of the budget Table A5 above, presents the funding sources that are depicted in the chart below:

The new borrowing of R85m is intended for the upgrading of the bulk electricity infrastructure to expand on the existing capacity in Olifantshoek which is over loaded and represents, as seen below, 31% of the total capital budget. Please note that the Department of Energy through the integrated National Electrification Programme (INEP) has allocated Gamagara Municipality R85 million over the MTREF, so we are using this grant to apply for front loading from DBSA.

Internally generated funds of R95m contributes 34% to this proposed capital budget 2016/17 with 16% from government grants and 19% from public contributions.



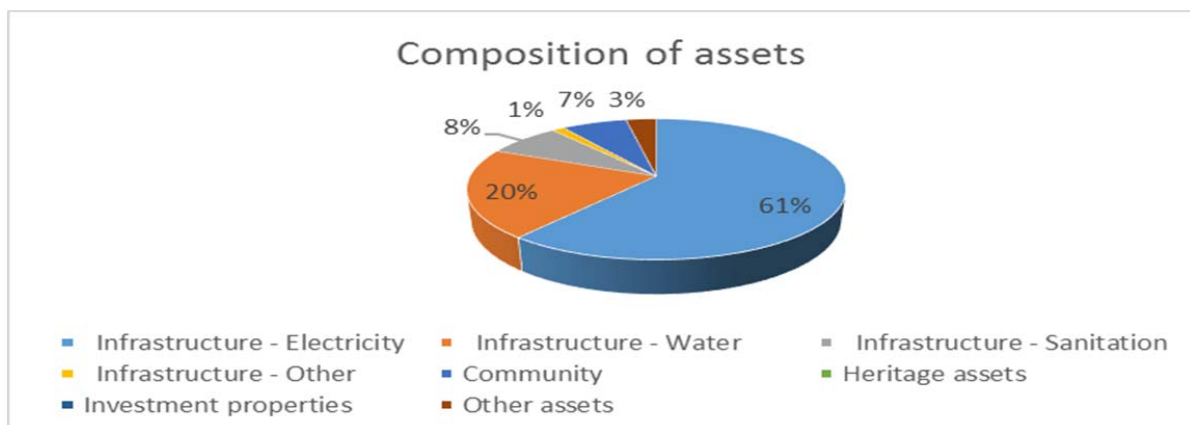
## 1.6.2 Capital Investment

The expenditure in the medium term 2016/17 will majorly be investments in new and replacement capital assets to address the much needed infrastructure of Gamagara.

NC453 Gamagara - Table A9 Asset Management

Description R thousand	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<b>Total Capital Expenditure</b>	4									
Infrastructure - Road transport		11 469	-	3 455	14 000	6 300	6 300	-	5 000	10 000
Infrastructure - Electricity		2 483	-	8 285	104 800	31 350	31 350	168 000	76 394	128 000
Infrastructure - Water		8 230	-	15 074	101 900	24 092	24 092	56 715	140 840	86 830
Infrastructure - Sanitation		31 436	-	17 777	29 914	11 214	11 214	20 903	15 809	16 609
Infrastructure - Other		-	-	1 185	6 050	2 700	2 700	3 450	-	-
Infrastructure		53 618	-	45 775	256 664	75 656	75 656	249 068	238 043	241 439
Community		8 796	-	1 372	37 937	12 677	12 677	18 284	7 000	7 000
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets		8 157	-	20 564	54 060	14 509	14 509	8 492	1 750	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		429	-	2 885	1 500	1 500	1 500	3 000	-	-
<b>TOTAL CAPITAL EXPENDITURE - Asset class</b>	2	<b>71 000</b>	<b>-</b>	<b>70 596</b>	<b>350 161</b>	<b>104 341</b>	<b>104 341</b>	<b>278 844</b>	<b>246 793</b>	<b>248 439</b>

It can also then be concluded with the composition of capital budget expenditure as seen in the chart below that a direct reflection is adherence to the NDP (National Development Plan)



In conclusion:

A quote from Circular 75

### Service Level Standards

“The service level standards need to be tabled before the municipal council for formal adoption”

The two pages attached (Annexure B) constitutes the outline to assist municipalities in finalising their service level standards.



## Part 2 – Supporting Documentation

### 2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Chairperson of the Finance portfolio committee.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

#### 2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council as required the IDP and budget time schedule on 30 August 2016.

There were deviations from the key dates set out in the Budget Time Schedule tabled in Council which led to delays in the preparation of the budget.

#### 2.1.2 IDP and Service Delivery and Budget Implementation Plan

This IDP started in September 2015 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2016/17 MTREF in August.

The Municipality's IDP is the principal strategic planning instrument, which directly guides and informs the planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the second revision cycle includes the following key IDP processes and deliverables:

- Registration of community needs;

- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2016/17 MTREF, based on the approved 2014/15 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2016/17 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2015/16 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

### **2.1.3 Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2016/17 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2015/16 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54, 70 and 72, 75, 78 and 79 has been taken into consideration in the planning and prioritisation process.

### **2.1.4 Community Consultation**

The final 2016/17 MTREF as tabled today before Council on 30 March 2016 must be advertised for community input and consultation and must be published on the municipality's website, and hard copies must be made available at customer care offices, municipal notice boards and various libraries.

All documents in the appropriate format (electronic and printed) must be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

## **2.2 Overview of budget related-policies**

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### **2.2.1 Review of credit control and debt collection procedures/policies**

The Collection Policy as approved by Council is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities. The programme also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

The 2016/17 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 95 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the Municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

### **2.2.2 Asset Management, Infrastructure Investment and Funding Policy**

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the Municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

### **2.2.3 Supply Chain Management Policy**

The Supply Chain Management Policy was adopted by Council. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

#### **2.2.4 Budget and Virement Policy**

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations. The Budget and Virement Policy was approved by Council

#### **2.2.5 Cash Management and Investment Policy**

The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

#### **2.2.6 Tariff Policies**

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

#### **2.2.7 Property Rates Policy**

The property rates policy aims to regulate the levying of property rates and the categorisation of property owners. It further aims to regulate who and how rebated and exemptions will be provided to property owners. Since there is a new valuation roll to be implemented in July 2014 the policy needs to be reviewed to address current trends in the municipality.

### **2.3 Municipal manager's quality certificate**

I, TC Itumeleng, Municipal Manager of Gamagara, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name    TC Itumeleng

Municipal manager of Gamagara (NC453)

Signature\_\_\_\_\_

Date: 25 May 2016

# **ANNEXURE A.**

**(Supporting Tables SA11, SA13a and SA13b)**

## **Services Tariffs 2016/17**

## **ANNEXURE B.**

### **Service Level Standards**